



DEPARTMENT OF THE ARMY  
U.S. Army Corps of Engineers  
WASHINGTON, D.C. 20314-1000

BUTLER/ed

DOWNEY

CHAPMAN

REPLY TO  
ATTENTION OF:

CERE-RA (405)

15 March 1993

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Federal Income Tax (FIT) on Reimbursable Benefits,  
Policy Letter 93-1

1. We have become aware that Federal Income Tax (FIT) computation guidance contained in ER 405-1-12, Change 29, dated 15 September 1992, paragraph 7-48(d) is in error.

2. The problem centers on the proper method of calculating the FIT to be withheld at the time of disbursing Homeowners Assistance Program (HAP) benefits in the case of government acquisitions.

a. Example 1.

Mortgage Balance	\$60,000
Current appraised value	\$65,000
Plus reimbursables:	
Interest	\$ 2,000
Taxes	\$ 1,000
Insurance	200
Total	\$ 3,200
Minus	
Rental Income	\$ 1,000-
Net Reimbursable	\$ 2,200

Previous guidance provided in the ER 405-1-12 would reflect no tax consequence. However, losses suffered through the sale of a home are not tax deductible and a sale price below the current appraised value cannot be considered a negative benefit. In this case FIT = \$440 or 20% of \$2,200.

b. Example 2.

Mortgage Balance	\$65,000
Current appraised value	\$60,000
Plus reimbursables:	
Interest	\$ 2,000
Taxes	\$ 1,000
Insurance	\$ 200
Total	\$ 3,200
Minus	
Rental Income	\$ 1,200-
Net reimbursable	\$ 2,000

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In this example the applicant actually avoids a \$5,000 out-of-pocket loss by having the government acquire the mortgage for more money than the current value. IRS has ruled that the \$5,000 difference is taxable, because this is considered "wages" and FIT would be withheld on \$7,000 (\$5,000 + \$2,000) at the 20% rate, for a total of \$1,440. <sup>2300</sup> <sub>600</sub> <sup>2200</sup> <sub>1960</sub> <sup>1994</sup>

3. HAPMIS is now being modified to reflect the correct computations. Districts will report financial data using HAPMIS. The following two scenarios exemplify the two step process.

#### Scenario 1.

Step 1 (Current Fair Market Value and the amount the government pays for the dwelling).

PFMV	\$100,000
75%	75,000
Mtg Bal	80,000
CFMV	82,000

Applicant elects Government Acquisition and we pay off the mortgage balance of \$80,000. As the current fair market value is more than the payoff, there is no taxable benefit based on the purchase price and the CFMV.

#### Step 2 (Reimbursables)

Interest	\$2,000
Taxes	1,000
Insurance	200
Total	3,200
Rental	(1,000)
Net Benefit	2,200

Taxable benefit is \$2,200. FIT withheld or reportable would be \$440.00. The excess of CFMV over the mortgage payoff amount is not deducted from the reimbursable total. If there were no reimbursable items, the \$2,000 or CFMV over mortgage payoff would not be deductible from the applicants gross income.

#### Scenario 2

Step 1. (Current Fair Market Value and the amount the government pays for the dwelling).

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PFMV	\$72,500
75%	54,375
Mortgage Bal	67,400
CFMV	65,000

Government Acquisition mortgage payoff is \$67,400. As this amount is more than CFMV of \$65,000, taxable benefit is \$2,400.

Step 2. (Reimbursables).


Interest	\$500	
Taxes	175	
Insurance	100	
Total	775	(TAXABLE BENEFIT)

Total taxable benefit is \$3,175 = (\$2,400 + \$775)  
Total withheld or reported is \$ 635 or 20% of \$3,175

4. This method of calculating taxable benefits may result in some applicants paying more taxes. This is unfortunate, but unavoidable.

5. It is essential for all Districts to compute the benefits in the same way. Therefore, all districts will use HAPMIS. HAPMIS closing statements will be submitted to HQUSACE, ATTN: CERE-R for each closing NLT<sup>1/15/93</sup> the last day of the month in which the closing occurs.

FOR THE DIRECTOR:

  
DON C. CHAPMAN  
Chief, Realty Services Division  
Directorate of Real Estate

DISTRIBUTION:  
COMMANDER,  
MISSOURI RIVER DIVISION, ATTN: CEMRD-RE  
NORTH ATLANTIC DIVISION, ATTN: CENAD-RE  
NORTH PACIFIC DIVISION, ATTN: CENPD-RE  
OHIO RIVER DIVISION, ATTN: CEORD-RE  
PACIFIC OCEAN DIVISION, ATTN: CEPD-RE  
SOUTH ATLANTIC DIVISION, ATTN: CESAD-RE  
SOUTH PACIFIC DIVISION, ATTN: CESP-RE  
SOUTHWESTERN DIVISION, ATTN: CESWD-RE

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CF:

COMMANDER

NEW ENGLAND DIVISION, ATTN: CENED-RE

OMAHA DISTRICT, ATTN: CEMRO-RE

BALTIMORE DISTRICT, ATTN: CENAB-RE

NEW YORK DISTRICT, ATTN: CENAN-RE

ALASKA DISTRICT, ATTN: CENPA-RE

SEATTLE DISTRICT, ATTN: CENPS-RE

LOUISVILLE DISTRICT, ATTN: CEORL-RE

SAVANNAH DISTRICT, ATTN: CESAS-RE

LOS ANGELES DISTRICT, ATTN: CESPL-RE

SACRAMENTO DISTRICT, ATTN: CESP-RE

FORT WORTH DISTRICT, ATTN: CESWF-RE